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Folio:

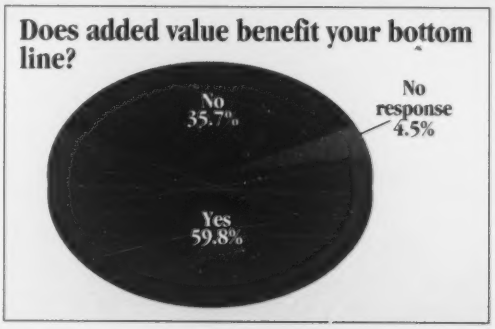
Uncoated paper: More quality grades . . . page 92

A Publication of The Hanson Publishing Group, Inc.

JANUARY 1, 1991 THE MAGAZINE FOR MAGAZINE MANAGEMENT $6.50

What's the value of added value?

FOLIO:'s exclusive survey shows how advertising and marketing directors are taking advantage of added-value programs to give their consumer titles a competitive edge, increase their shares of market and improve their bottom lines. **86**



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Special interest titles regroup for the '90s

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BENI HOTCHKISS LAWERENCE PANDOLFI ROMAN SARBIN

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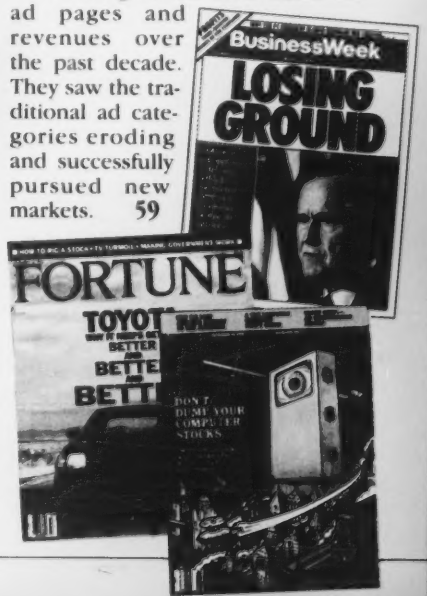

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Vol. 20 No. 1

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UPDATE

Profit gap between magazine groups shrinks

Trade magazines became slightly more profitable in '89

by Liz Horton

NEW YORK CITY—The profitability gap between trade and consumer magazines is shrinking, according to Veronis, Suhler & Associates' 1990 Communications Industry Report.

Trade magazines became slightly more profitable in 1989, but they continued to slip in revenue growth. Meanwhile, consumer magazines hit a five-year high in revenue growth and held their own in profitability, according to the report, which covers only public companies.

During the past 10 years, "growth rates have almost changed positions, margins are almost at parity, and [trade and consumer titles] look more alike than dissimilar," says John Suhler, president and co-CEO of

Comparison of 1989 performance of consumer and trade magazines

Category	Consumer magazines()*	Trade and professional magazines	Total
1989 revenue growth (%)	20.4 (8.2)	5.7	13.7
1989 pretax operating income growth (%)	21.5 (-7.6)	13.6	18.2
1989 pretax operating income margin (%)	13.3 (11.0)	12.1	12.8
Change in pretax operating income margin from 1988 (points)	0.2 (-1.9)	0.8	0.5
Change in pretax operating income margin from 1985 (points)	3.1 (0.5)	-4.6	-0.2
1989 pretax operating income return on assets (%)	16.9 (22.1)	14.8	16.0
1989 operating cashflow growth (%)	22.5 (-2.7)	4.9	14.0
1989 operating cashflow margin (%)	15.0 (13.0)	16.1	15.5
Change in operating cashflow margin from 1988 (points)	0.3 (-1.5)	-0.1	0.1
Change in operating cashflow margin from 1985 (points)	3.5 (1.4)	-2.8	0.8
1989 operating cashflow return on assets (%)	19.1 (26.2)	19.7	19.3

* *Figures in parentheses indicate the performance of consumer magazines without the News Corporation acquisition factored in.*

***Minus News Corporation's acquisition** of Triangle Publishing, the numbers for consumer and trade titles are beginning to look more alike than ever, according to the latest industry report from Veronis, Suhler & Associates.*

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the investment banking company.

The magazine industry as a whole was one of few communications sectors that *didn't* grow at the slowest rate in five years (the others were cable TV and film).

Revenues from consumer and trade magazines combined increased 13.7 percent in 1989, while profitability grew slightly, according to the report, which is an annual census of public companies in nine segments of the communications industry.

Consumer magazines racked up the majority of the gains, with revenue growth at 20.4 percent. Most of that was due to News Corporation's acquisition of Triangle Publishing, previously a private company.

Even subtracting News Corporation's gains, however, consumer magazines still posted their largest annual revenue growth since 1985: 8.2 percent. Profitability (pretax operating income margin), however, fell 1.9 points from 1988, to 11 percent.

Revenues at trade titles lagged, increasing 5.7 percent. The figures were pulled down by Capital Cities/ABC and McGraw-Hill, says Suhler. These two companies, accounting for more than 50 percent of the revenues in the segment, concentrate on industries that have grown slowly: finance, computers and construction. Profitability grew eight-tenths of a point, to 12.1 percent, but that was still 4.6 points lower than in 1985.

'Old-time religion mergers' ahead

Suhler says 1991 will be another challenging year for the trade press, and consumer magazines will be looking at slow growth.

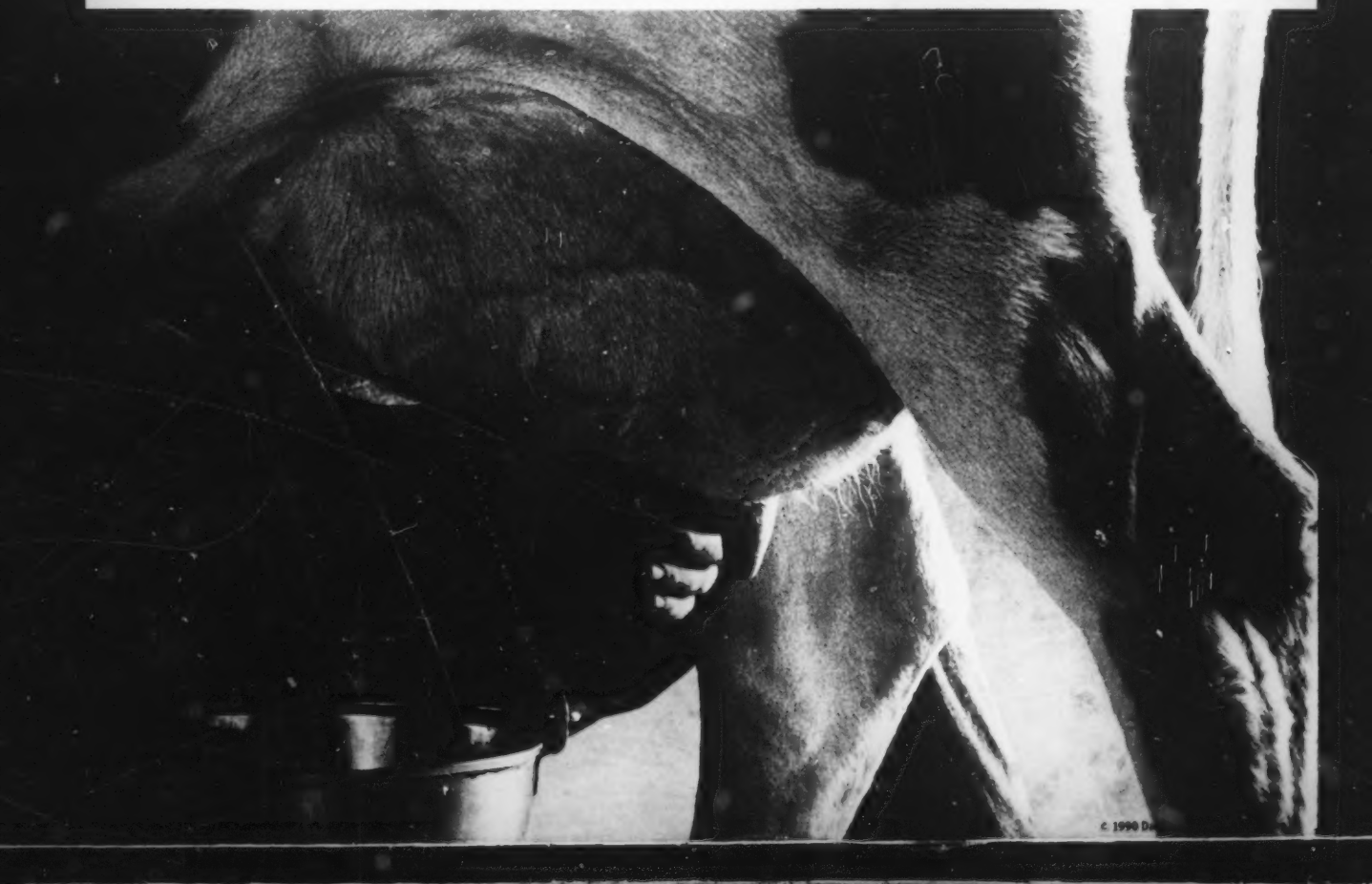
The slowdown will change the kinds of mergers and consolidations in the media business, he adds. The expansionary mindset that created offensive consolidations in the eighties will be replaced with a more defensive kind. "In today's hunker-down economy, we will see more old-time-religion mergers where it really makes sense," Suhler says. There are also likely to be fewer independently financed titles. And, if new titles "are not on the jet path of acceptance, they'll have trouble." □

Quebecor launches list service firm

GREENWICH, CONN.—To help publishers take advantage of selective binding capabilities, Quebecor Printing (USA) Inc. has joined with the list service company FDC Inc. to form Quebecor List Services Inc.

The new company offers full mailing list processing services, ranging from basic presort and merge/purge functions to complex list segmentation and enhancement.

Combined with Quebecor's newly enhanced bindery systems, the new list service is expected to facilitate use of selective binding techniques. It is also expected to help clients adjust to new postal rates and regulations. □



Business magazines: Changing with the times

Business Week, _Forbes_ and _Fortune_ saw traditional ad categories slide a decade ago and successfully pursued new markets

by Bert Peller

NEW YORK CITY—Business magazines have strengthened their lead in advertising pages and revenues over the last decade by keeping pace with major shifts in their markets. The changes provide a model that other publishers having problems selling ads to their traditional advertisers may wish to follow.

As a group, the big three—*Business Week*, *Forbes* and *Fortune*—increased ad pages by an average of nearly 27 percent and revenue by an average of 162 percent between 1980 and 1989.

This growth was accomplished despite losses in what were traditionally the strongest advertising categories for these magazines; the gains came from categories that had been less important for all three at the beginning of the decade.

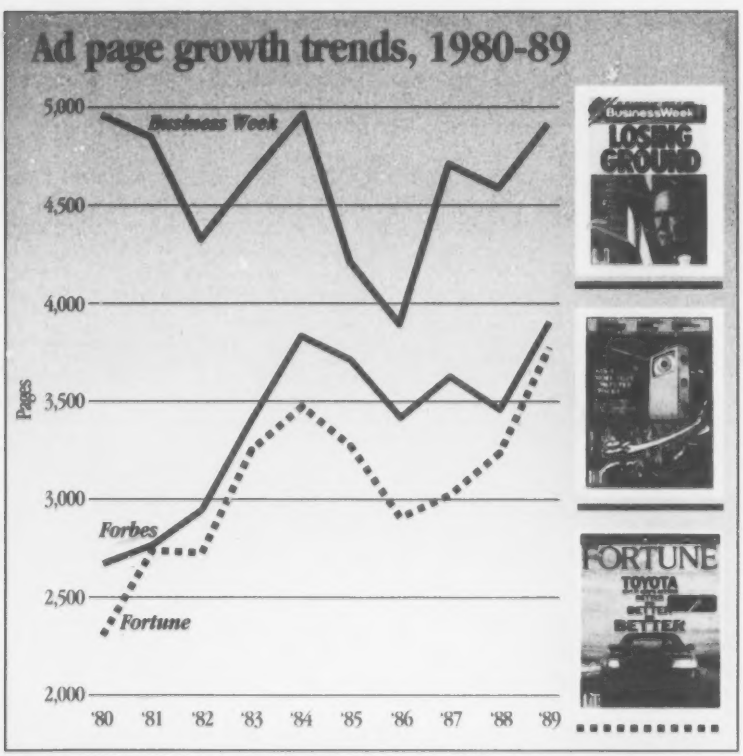
Throughout the eighties, *Business Week* maintained its position as the ad page leader among all U.S. magazines measured by Leading National Advertisers, although it ran slightly fewer pages in 1989 than in 1980. *Forbes* moved from 18th to second place, and *Fortune*, from 12th to third.

Business ad pages (first nine months 1990)

Business Week	245
Forbes	279
Fortune	254

Revenue gains for the group were even more impressive. *Business Week*'s take for 1989 was $260.0 million, $137.6 million higher than its 1980 revenue. That gain was exceeded by only a handful of mass circulation publications with high page rates (*Time*, *Sports Illustrated* and *Parade*). *Forbes*'s revenue increased by 201.1 percent, while *Fortune* increased by 251.3 percent. All three were in the top 10 among magazines. (*See table, page 60.*)

In this year's less friendly atmosphere, the three titles as a group were down only 7.32 percent in ad revenue and 1.27 percent in ad pages through October, so their basic strength seems well established.



During the past decade, Business Week *remained number one in ad pages among all magazines;* Forbes *and* Fortune *moved from 18 and 12 to two and three.*

Replacing categories

The success for the decade has been achieved in the face of a rapid decline in advertising in one previously very important category: We call it business-to-business advertising.

The category includes advertisers of capital equipment, machine tools, raw materials and various business services. Business-to-business had traditionally been *Business Week*'s largest category and the core of its support. The category was also

Ad revenues: 10-year change

Title	1980 ($millions)	1989 ($millions)	% change 1980-89
Business Week	$122.9	$260.6	111.9%
Forbes	44.9	157.7	251.3
Fortune	55.6	167.3	201.1
Three-magazine field	223.4	585.6	162.1

Source: Publishers Information Bureau

***The three business titles ranked** in the top 10 magazines based on ad revenue in 1989:* Forbes *and* Fortune *moved from 18th and 23rd in 1980 to eighth and ninth, while* Business Week *remained near the top ranking sixth.*

important for the other two titles. But in the early eighties, with the decline in advertising by basic industries like steel, business-to-business was sharply reduced, and what was left was being channeled into specialized trade magazines. It became obvious that little would be available again in the foreseeable future.

What to do?

Management at the three publications soon recognized that there wasn't much they could do about advertising budgets that didn't exist anymore. But they recognized there was new opportunity in the restructuring of the service economy, and the sharp growth in computers and telecommunications. In addition, personal affluence was increasing for business executives who were and are now readers of these magazines and could be considered logical users of lifestyle products.

During the 1980s, each of the three modified its editorial thrust and changed the way it went about marketing space.

The categories we've used, such as "lifestyle," don't officially exist. Publishers Information Bureau (PIB) doesn't track them, and PIB categories have unquestionably long been accepted by the industry. The numbers we present are not absolute, and they may be considered debatable. But they provide an overview that may be helpful in understanding what's been going on during the 10-year period.

Each magazine saw some traditional ad categories erode and successfully focused on new categories, which allowed them not only to replace lost pages, but to surge ahead in total pages.

The following trends offered new opportunities:

- Increased need for information processing products and services and other new technologies.
- Interest in lifestyle information among business magazine readers.
- The need for companies with diverse products to define corporate image.
- The thrust of globalization as a pre-emptive marketing priority.
- Interest in regular measurement of financial market activities and in mergers and acquisitions.

The new positions

In the last decade, both *Business Week* and *Forbes* have become more heavily involved in high-technology office arena advertising, and lifestyle products and services. Business-to-business advertising has been sharply cut back. *Fortune* has become increasingly involved in corporate image advertising and lifestyle products and services.

Let's take a look at individual, broad-based ad categories:

The office arena. This arena began to take on increased importance in 1982, when the U.S. Government settled its suits against IBM and AT&T, signaling open competition in computer-related markets. There was a surge in computer and computer-related products and services and news that thrust the office arena into a major classification of advertising.

The office arena is one of the most important categories. All three magazines increased their number of pages from office products and services in the last decade. *Business Week* is especially strong in this area; it has more than twice the number of pages

Office arena ad pages (first nine months 1990)

Business Week	922
Forbes	410
Fortune	481

in this category than either of its two chief competitors. While this is a large source of revenue for *Business Week*, it is also a source of high interest among readers who attract other advertising categories. Readers of information about such office products tend to have high incomes, high tech interests, with high lifestyle and education profiles.

The great surge in space buying among advertisers in this category hasn't stopped. Rapid developments in telecommunications products, faxes, copiers and other office equipment are creating a need for continued advertising support. Obviously, the benefits of carrying office arena products and systems—greater availability of telecommunications, data processing, image processing, word processing, transaction processing and networking—are barely understood currently in many industries that have large growth potential in the full utilization of such products.

Business Week was first to incorporate a regular editorial department on information processing, but the other two followed with special sections and advertorials.

Lifestyle ad pages (first nine months 1990)

Business Week	737
Forbes	772
Fortune	763

Lifestyle. Lifestyle or consumer advertising (travel, apparel, retail sales, alcoholic beverages, automobiles, etc.) is a second large category for this group of magazines today. *Business Week* has indeed increased

A scan of October issues: 10 years apart

	Business Week				*Forbes*				*Fortune*			
	1980		1990		1980		1990		1980		1990	
	Ad pages	% of total ad pages	Ad pages	%	Ad pages	%	Ad pages	%	Ad pages	%	Ad pages	%
Office arena	102	19.5%	128	38.9%	24	9.1%	48	18.7%	38	23.6%	49	17.3%
Lifestyle	84	15.6	89	27.0	39	14.8	66	25.7	29	18.0	86	30.3
Corporate image	127	23.6	71	21.6	86	32.7	78	30.4	31	19.3	96	33.8
Business-to-business	145	27.0	26	7.9	68	25.9	20	7.8	28	17.4	32	11.3
Financial	80	14.9	15	4.6	46	17.5	45	17.5	35	21.7	21	7.4
Total ad pages (# issues)	**538 (5)**	**100.0**	**329 (4)**	**100.0**	**263 (3)**	**100.0**	**257 (2)**	**100.0**	**161 (2)**	**100.0**	**284 (2)**	**100.0**

Note: No fractionals are included in tabulation. Because of rounding, percents of total ad pages may not add up to exactly 100.
Source: Bert Peller (independent tabulations)

***The leading business titles** shifted their advertising focuses over the 1980's.* Business Week *and* Forbes *increased their proportions of office arena and lifestyle ads, while* Fortune *has built up lifestyle and corporate image.*

its proportion of such advertising. But lifestyle pages in *Forbes* and *Fortune* have soared. The number of lifestyle pages in *Fortune* has almost tripled in the last decade, according to the test month analyzed.

The current density of lifestyle advertising marks a virtually new category for business management magazines. All three magazines recognized early on in the decade the need for salesmen specializing in automotives and beverages, for example, to optimize ad sales in these fast-growing categories. The role of the marketing specialist has become pronounced and is a good indication of change in the way ad space is being sold.

Jack Bedell, senior vice president and director of marketing at *Business Week* since 1976, says the shift there to more lifestyle advertising (liquor, tobacco, automobiles) started in 1971. "In the mid 1970s, coming from an industrial book, people here said they wanted to limit that to no more than 35 percent of our pages, but it never grew *that* much."

Forbes started carrying editorial on lifestyle in a column called Personal Affairs about 10 years ago, says Don Garson, director of corporate communications, who has been with the magazine for over 20 years. It grew into a regular department.

"We were always covering business to the greatest extent possible," says Garson. "We began to get much more advertising than we had editorial, so we started thinking we could deal with these people as people, not just businessmen. The lifestyle editorial proved very popular with readers.

"We always carried lots of liquor advertising," he adds. "We [now] also carry ads for automobiles, men's fragrances and suits. Ten years ago, we wouldn't have carried men's

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It is not surprising that *Forbes* would have a vested interest in starting up new properties such as *Egg* and *Forbes FYI* and the Personal Affairs department. These products broaden *Forbes*'s appeal for lifestyle advertisers.

Fortune has a lifestyle editorial department, too. It started such coverage even before Marshall Loeb arrived from *Money*.

Corporate image ad pages (first nine months 1990)

Business Week	620
Forbes	575
Fortune	586

Corporate image. This category, which includes brand and corporate identity, is strong for all three magazines. High-technology, information-processing, telecommunications companies need to make their products, services, innovations and productivity known. In 1989, *Business Week*, *Forbes* and *Fortune* accounted for $198 million in corporate advertising, according to Publishers Information Bureau. This is 40 percent of the total ($489 million) placed in all magazines. *Business Week* carried the most corporate advertising pages among all magazines in the first nine months of this year (620 pages).

Financial ad pages (first nine months 1990)

Business Week	258
Forbes	375
Fortune	246

Financial. In this fourth category (banks, insurance, mutual funds), which is composed of business and personal financial advertising, *Forbes* has a significant lead over the others. For the first nine months of 1990, for example, *Forbes* carried 375 financial pages, compared to 258 for *Business Week* and 246 for *Fortune*.

Financial advertising has undergone a dramatic change in the last decade:

• Tombstone advertising—stocks, debentures, financial notices—has been virtually discontinued in these magazines.

• Whereas financial advertising used to be targeted for corporations, particularly large multinational companies with worldwide commitments, it is now being targeted for individuals who have IRAs, are planning for families and retirement, and work with advisory services.

• European banks such as Deutsche Bank, Allianz and Credit Suisse continue to advertise, but major American banking campaigns have been severely curtailed or eliminated.

Magazines today must keep pace with economic shifts and with shifts in editorial and advertising focus. *Business Week*, *Forbes* and *Fortune*, taking steps that other publishers may wish to follow, have successfully kept up with the times. Faced with downward shifts in the time-honored ad categories they covered, they sought growth in *new* ones. And they continued to be leaders in ad pages in 1989 and in 1990.□

Bert Peller is currently a consultant. He was vice president and manager of media for business markets at J. Walter Thompson for 24 years.

New Magazines

NY: The City Journal

NY: The City Journal, a quarterly covering politics and culture, was launched in September by The Manhattan Institute. The title's initial circulation is 5,000 controlled, with copies sent to the city's opinion leaders. The black-and-white page rate had not been set at press time. William Hammett is publisher. Richard Vigilante is editor. A subscription costs $25; cover price is $6.95. Address: 42 E. 71st St., New York, NY 10021. Telephone: 212-988-7300.

Music Retailing

WGE Inc., publisher of *CD Review*, started *Music Retailing* in September. Published two times a month, the 12,000 controlled circulation title targets record retailers. Editorial covers how to manage a business. The black-and-white page rate is $863. Wayne Green is publisher. Mark Lo is editor. A subscription costs $95. Ad-

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BY WILLIAM P. HOGUE

Do you remember the days when gas stations had price wars, gave away glasses, and actually asked to check your oil? Then you also remember the days when magazines *didn't* have price wars or give away freebies. It was a point in time we might call B.A.V.—"Before Added Value."

But that was then, this is now. And *now*, to sell advertising successfully, you offer added value. Period. Added value is not only no longer an option, it's no longer a function of size. All publishers, large and small, are now in two businesses: the publishing business and the added-value business. It's everybody—from a Goliath like *Time* to a David like *Wine Country International Magazine*.

Meeting the demand

Of course, Time Warner and its minions get the ink in the trades, as do other books in their league—particularly when they cut added-value deals that are so cross promoted they begin to make the advertiser's full-year media plan look simple by comparison. But what does added value mean for most magazines? How does it affect staffing and budgeting? How can a magazine determine if it's doing enough, too much, or too little?

In order to get "behind the headlines," FOLIO: surveyed a large, across-the-board sample of consumer magazines to begin answering the question, "What is the value of added value?"

For most books, added value does not mean going into business with an advertiser. Rather, it means meeting a day-to-day demand for merchandising—synonymous in this article with added value. This demand is channeled through salespeople, many of whom spend a lot of time as promotion agents between advertisers and their own promotion staff. Many also work up added-value ideas themselves. And most just can't get over the fact that a $250 merchandising idea can actually sway someone to purchase a page of advertising for $50,000.

But it can. And it does—even if sometimes the idea never gets implemented. It appears that in most cases, the idea is the thing, not its implementation. And here is the proof: Nearly one-third of the respondents to the FOLIO: survey say 10 percent or less of the ideas they suggest get implemented. Nearly half say less than 40 percent are implemented.

However, this has not slowed the flow of requests. In fact, it's opened the flood gates. During 1985, only 2.7 percent of this group had 100 or more requests for added value. In 1989, 23.2 percent received 100 or more requests, and 10.7 percent had 200 or more. In 1985, none of them had 200 or more.

The pressure is on

Despite the current low implementation score, ideas brought to fruition are on the rise. Over two-thirds of the respondents said that the percentage of ideas implemented has increased since 1985. Why are more and more advertisers actually taking magazines up on their merchandising offers? In a word: Pressure. To paraphrase a much-given answer: "Clients want more bang for the buck. So they pres-

• In summary •

- **Added value programs** are a part of the way all magazines, large and small, are doing business today.
- **It is the salespeople,** by and large, who act as promotion agents between the advertisers and their own promotion staffs.
- **Not all added-value ideas are implemented** (nearly half the respondents say less than 40% are), but the number of requests continues to escalate, as does the number of ideas brought to fruition. Requests come from both the client and the agency.
- **Publishers' attitudes to requests for added value** fall into two camps: Enthusiasts and Resigned-to-its.
- **The number of requests vary markedly** from magazine to magazine, and from ad category to ad category. Print spending by a given ad category is not necessarily a predictor of the number of requests for merchandising.
- **Staff size and availability of money** may determine the nature of the added-value program. Very often, the simple, tried-and-true is the order of the day.

added value?

sure the agencies, who in turn pressure the magazine."

A review of dozens of trade stories on added value seems to validate this current wisdom. In search of the well-spring for this flood of requests, the client often gets fingered. Even so, 62.5 percent of the FOLIO: respondents feel the demand for added value comes from both agency and client. In fact, only 15.2 percent single out the client alone as the source, while 20.5 percent think the demand for added value comes primarily from agencies.

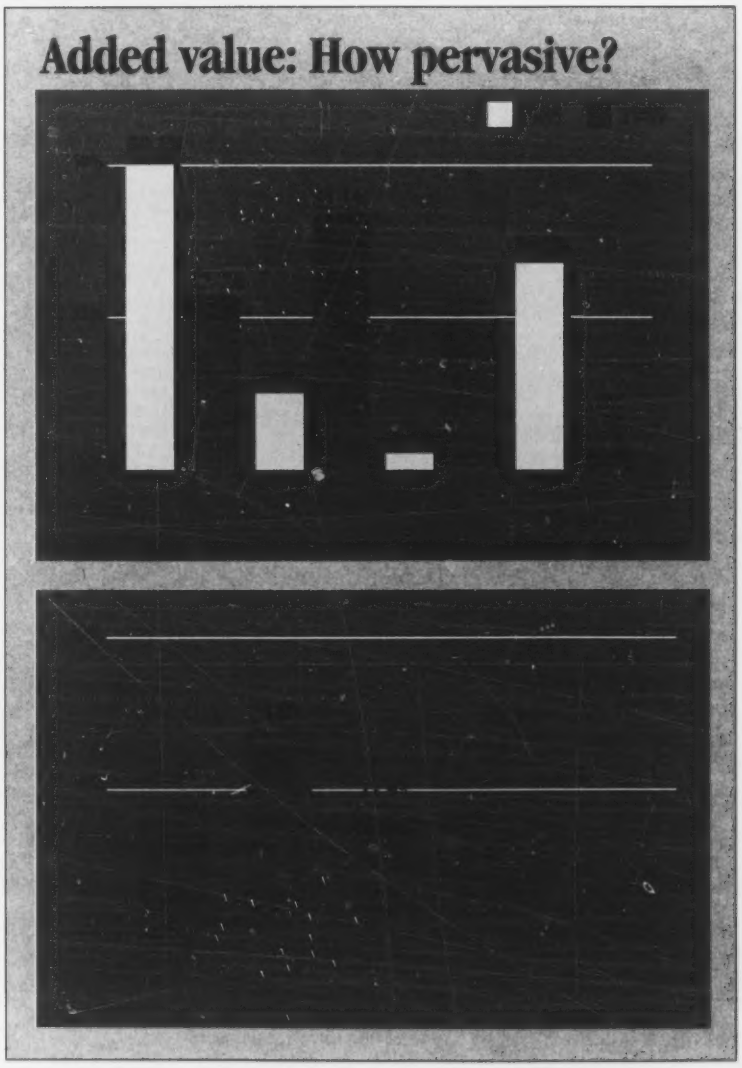
Whatever the source of the added-value phenomenon, when it comes to attitudes toward its seemingly unstoppable growth, publishers break into two decidedly different camps: the "Enthusiasts" and the "Resigned-to-its."

Enthusiasts say things like, "Added value is a terrific opportunity to learn more about your customers' businesses, to strengthen ties, etc."

Resigned-to-its say things similar to this comment by the publisher of a most venerable publication: "More agencies are just fishing for ideas. They have no intention of using your book, but ask you to submit a merchandising proposal anyway just to prove to the client that they really are working diligently."

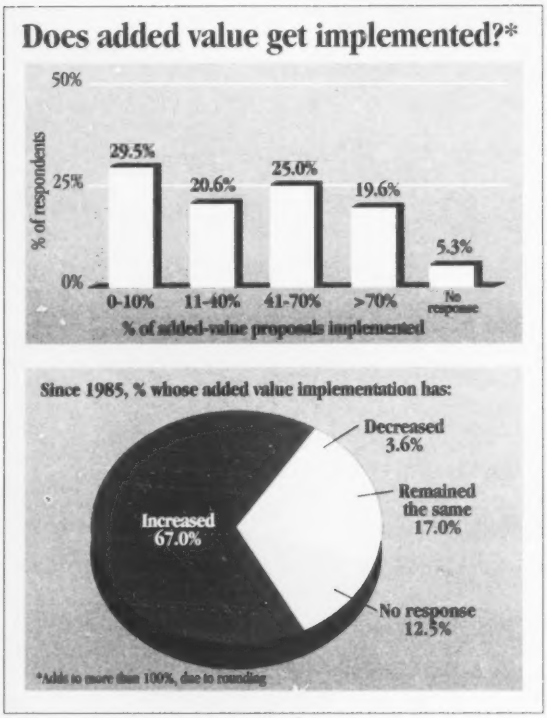
And, more clients and agencies are making those requests (fishy or otherwise) than ever before. Nearly 90 percent of the respondents report that the percentage of advertisers requesting merchandising ideas has increased since 1985. But a truer measure of the pervasiveness of added value should become apparent from the actual percentage of advertisers making merchandising requests.

Just over half the respondents say less than one-third of their adver-

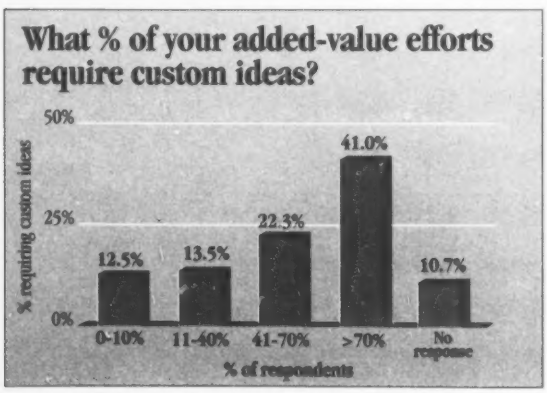


How pervasive is added value? *For over half the respondents to the* FOLIO: *survey, less that one third of their advertisers even make added-value requests. However, these requests have been on the rise since 1985. Also, while 10.7 percent say they received over 200 requests in 1989, four years earlier, no one in this group had topped the 200 mark.*

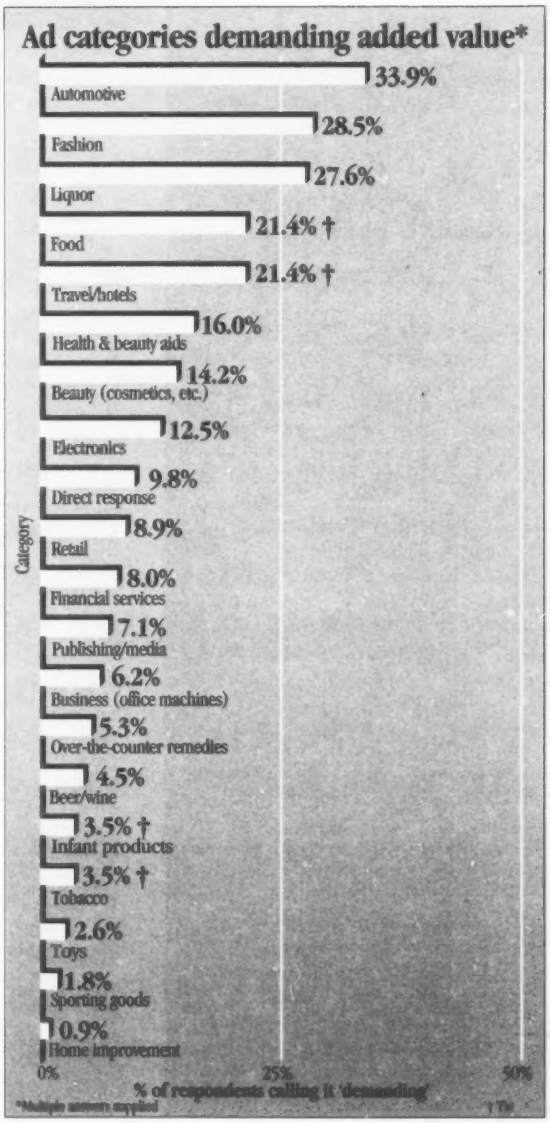
SOS DESIGN



***Do advertisers actually use** the hundreds of added-value ideas they receive from magazines? Although the rate of implementation has increased for 67 percent of this sample, nearly one-third estimate that 10 percent or fewer of their ideas are implemented. One-fifth report a better than 70 percent implementation rate.*



***The big news here: Over 40 percent** of the respondents say that more than 70 percent of the ideas they come up with require concepts customized to an advertiser's specific marketing needs. That's why developing all-inclusive programs can be risky. You spend 15 minutes on a call describing your programs. The person across the desk says, "Those programs are great, and the client will probably want to take advantage of them. But those are for everybody. What are you going to do for us?"*



***The big surprise here is tobacco ranking 15th** among the "most demanding" categories, given its huge (albeit shrinking) ad expenditures in magazines. Otherwise, except for travel's surprisingly high tie for fourth place with food, added-value demand essentially falls in line with spending.*

tisers ask for added-value ideas; nearly one-quarter say 10 percent or less of their advertisers are asking for added value. That's hardly pervasive. However, "pervasive" may be in the eyes of the recipient. Example:

The publisher who made the "fishing" complaint received 25 requests for merchandising in 1989. Contrast that person's attitude with that of the ad director of a major city publication who received—are you ready?—300 requests for merchandising in 1989. What is this person's feeling about added value? Quote: "A well-executed merchandising program is of great benefit to both the client and the magazine."

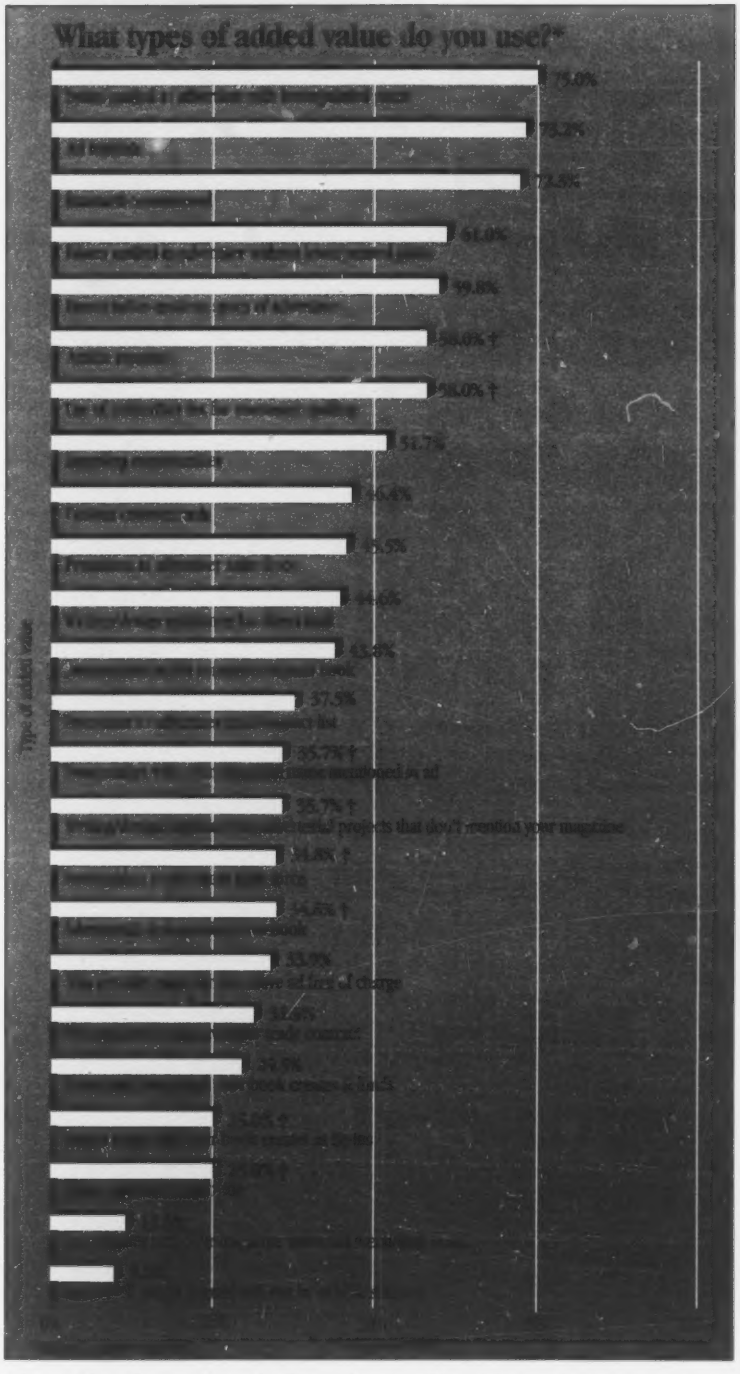
Just as the number of requests can vary wildly from magazine to magazine, even when they are approximately the same "size," some ad categories are considerably more enamored of added value than others. Ironically, print spending by a category does not necessarily determine its demand for merchandising.

"Some advertising categories are considerably more enamored of added value than others."

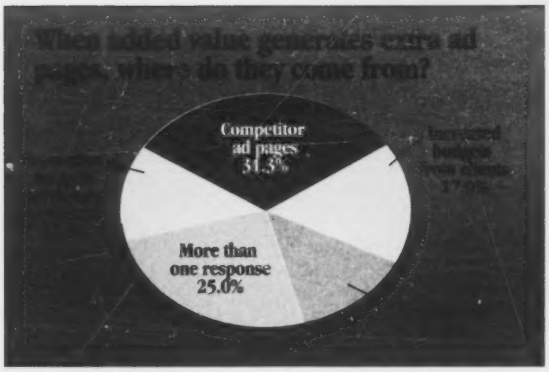
For example, tobacco, although a shrinking ad category, still generated $178,624,112 in print spending, January-July 1990, ranking eighth among the top 10 spenders. Yet it tied for 15th place among the 18 categories named by respondents as making the most requests for merchandising.

Who makes the most demands?

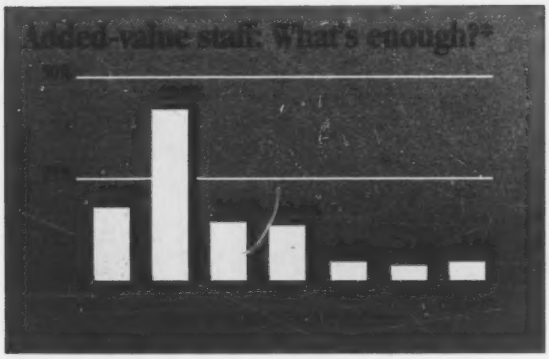
Key print categories like automotive, fashion, liquor and food (in that order) make the most demands for merchandising. Interestingly, almost twice as many respondents cited fashion as demanding added value than cited beauty. With its mega-firm clients complemented by heavy-hitter agencies, one would expect a veritable run on added value in the beauty category versus fashion. However,



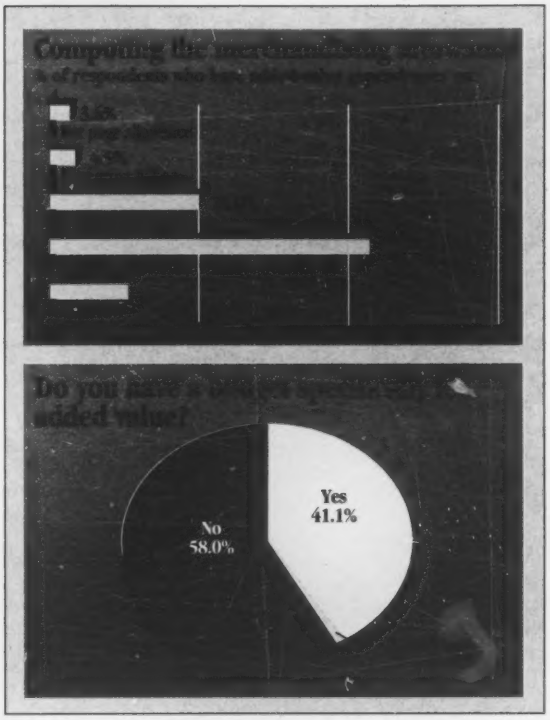
The tried-and-true "laundry list" *of options has apparently not gone out of favor with magazines and advertisers. Often what's easiest to do gets done. "Other" options listed by respondents included co-op advertising in advertisers' trade journals, demographic/marketing research, fund raising for nonprofit organizations as cosponsor with advertiser and interactive phone service. Interestingly, over one-third of the respondents don't blush about putting their names in advertiser sweepstakes ads . . . and they give them the space* free.



***Nearly a third** of the respondents credit merchandising with helping them steal pages from the competition.*



***Average staff size** appears to be two to four. Interestingly, a number of respondents included their sales staff as "working on" added value. No surprise. Salespeople get the requests. They forward them to promotion-type people. They present the ideas. In fact, they often come up with the ideas.*



***Here is an interesting paradox.** Nearly 60 percent of this sample report that they do not have a budget to fund added-value efforts. Yet they can indicate how they determine the amount of added-value money an advertiser will receive. Question: If there's no budget, where does the money come from?*

entrepreneurs often squeeze the most value out of their money—and fashion, despite some huge companies, continues as a very entrepreneurial enterprise.

To meet added-value demand from fashion and other categories, 61.6 percent of these respondents have increased staff since 1985; 26.8 percent left staff size unchanged; and only one respondent decreased the number of people working on merchandising. How many people does it take to field merchandising requests? For about 18 percent of these respondents, one person can handle the job. The average number is two to four employees, with 42 percent of the sample employing that many people to work on merchandising.

Staff size does not always reflect demand. That major metropolitan magazine quoted earlier employed four people to handle those 300 requests it received in 1989. These folks must be very busy coming up with unique added-value concepts for all those advertisers. Or are they?

It brings us back to the comparison of the rare mega-partnership extravaganzas versus the day-to-day request mill operated by most magazines. A glance at the list of added-value options offered by publishers, and the percentage who use them, quickly demonstrates that the tried-and-true standards like reprints and issue mailings still get the added value job done in the majority of cases. It really comes down to this:

"All publishers, great and small, are now in two businesses, the publishing business and the added-value business."

The more complicated the concept, the more people it takes to implement it. That's more people at the magazine, more people at the agency, and, yes, more people at the client. It is all well and good to propose an idea that is a masterpiece of cross promotion—but who's going to do the work? Agency staffs are shrinking. Magazine staffs (overall) are shrinking. Suddenly, the do-able becomes more attractive, and "turn-key" becomes the order of the day. And then there is the question of money.

No matter how times change, there continues to be no free lunch. That's probably why nearly two-thirds

of these respondents say they sometimes propose merchandising that requires that the client/agency share costs, and over 20 percent do it often. Add to this perhaps one of the most startling findings from this study: 58 percent of the magazines in this sample do not have a budget to fund added value.

As always, the subject of money makes people very closed-mouthed. Nearly 60 percent of the sample did not respond to the question, "What is the average amount of money your book spent on added-value efforts in 1989?" In fact, 42 percent wouldn't even say whether the amount spent on added value overall was larger, smaller, or the same, 1989 versus 1985 (47.3 percent did say the amount was larger).

But they did talk about how they determine what to spend. Only 3.6 percent use a per-advertising-page allowance, and only 4.5 percent base their expenditures on a percentage of an advertiser's gross billing. A quarter of the sample does determine expenditures on a percentage of the net billing, but the most favored approach is a "case-by-case basis"—53.6 percent of the respondents.

Of course, the name of the game is pages. So, does added value work, does it get the business? Well, 31.3 percent of this group say added value helps them steal ad pages from competitors; 17 percent feel they increased their share of ad budgets with merchandising; and 13.4 percent believe they've converted customer promotion dollars into ad dollars by offering added value.

And what about the most important place of all, the bottom line? Nearly 60 percent of this group think their bottom lines have benefited by offering added value, and only one-third say not so.

There should be nothing like bottom-line results to convert an added-value Resigned-to-it into an added-value Enthusiast. But if that's true, why does this survey group appear about evenly divided into the two camps? It shouldn't be the money, if added value counts as a good investment. So what is it? In my experience, the Resigned-to-its tend to express their reluctance along these lines: "It seems that, more and more, it is the best promoters and not the best publishers who get the business."

At least for now, it appears that one has to be the best of both. □

***Meredith hardly misses** a merchandising trick for advertiser Sherwin-Williams in its* Ad Age *ad, making it clear that it counts itself among the pro-active added-value "Enthusiasts." In its ad in* The New York Times, Good Housekeeping *carts out "old reliable," updating it for the added-value nineties.*

William P. Hogue is the corporate promotion director at Gruner + Jahr USA Publishing, publisher of Parents *and* YM *magazines.*

Methodology

One hundred eighty-four of the 648 consumer magazine executives who received questionnaires responded to FOLIO:'s 1990 added-value/merchandising/marketing survey, resulting in a 28.4 percent overall response rate. Of the total responses, 112 contained sufficient information to be used for tabulation. Questionnaires were sent to advertising directors and marketing directors whose names were pulled from the mastheads of consumer magazines. In cases where no ad or marketing director was listed, the questionnaire was directed to the publisher. The survey was conducted through two mailing efforts in June 1990 and a telephone follow-up in July.

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Uncoated paper: Found money

New, higher quality grades of uncoated paper might prove a logical choice for publishers trying to control the bottom line

BY ARTHUR C. VEVERKA

For most publishers, uncoated papers do not constitute a major part of their paper needs. Nevertheless, they are important grades as they represent a lower-cost alternative to the coated grades. Moreover, continuing quality improvements, particularly in the supercalendered grades, are providing ever increasing opportunities to substitute uncoated for coated paper. Given the fact that publishers, more than ever, need to control costs, the development of higher quality uncoated grades bears watching.

A year ago, we indicated several trends that appeared to be emerging in the uncoated grades:

- A shift within uncoated groundwood grades from machine finished (MF) to supercalendered (SC).
- Continuing quality improvements in SC paper.
- A supply/demand balance favoring the buyers—*i.e.*, supply exceeding demand by a significant margin.

How do we view these trends today? The shift away from machine finished grades has started, but the shift has not been all to supercalendered paper. We are now seeing the introduction of soft calendered grades as older paper machines are upgraded and soft calendering technology is adapted.

The quality of SC paper has been improving, but the most dramatic increases in quality are still ahead of us. The next few years should see the introduction of supercalendered grades with high levels of calcium carbonate filler. This will provide a better printing surface, greater opacity and a brighter sheet.

Last, the supply/demand balance may temporarily shift to a more neutral position (vis-a-vis buyers and sellers). Longer term, the outlook will probably still favor the buyer.

For the uncoated paper outlook we will examine two primary grades: uncoated groundwood and uncoated freesheet. Within uncoated groundwood, supercalendered and soft-calendered papers will be addressed separately. From a publisher's viewpoint, the uncoated groundwood grades are the most important, constituting over 58 percent of the total uncoated grades used by the printing industries. The balance is uncoated freesheet, but its share is expected to increase slowly over time in direct response to the growth in commercial printing, where freesheet is favored over groundwood.

Conversely, the printing industry is the most important business segment for uncoated groundwood papers. In 1989, the major end-users were as follows: magazines, 19 percent; inserts/flyers, 25 percent; catalogs, 12 percent; directories, 19 percent; commercial printing, 7 percent; other printing industry uses, 6 percent; and all other uses, 12 percent.

By contrast, the printing industry accounted for only about 22 percent of uncoated freesheet paper usage. A breakdown by major end-use for 1989 shows the following: direct mail, 4 percent; book publishing, 4 percent; commercial printing, 11 percent; other printing industry uses, 3 percent; and all other uses, 78 percent. Magazine usage accounted for only 0.8 percent of the total. The primary nonprinting applications for uncoated

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• In summary •

- **Publishers concerned about costs** are looking at uncoated papers, particularly uncoated groundwood, as a lower-cost alternative to coated paper.
- **Because of the economic slow-down** of 1990 and possibly 1991, paper buyers will be in a very favorable position for the next couple of years. Prices for uncoated groundwood may be more negotiable, while prices for uncoated freesheet should remain stable.
- **Demand for uncoated groundwood paper** has two distinct trends: up for the supercalendered segment, and down for the machine finished grades.
- **North American capacity for uncoated groundwood** is expected to increase by only 254,000 short tons through 1993. All of this will come from Canada, which at present supplies 41% of total U.S. uncoated groundwood needs. The total U.S. capacity for uncoated freesheet grades of 12.2 million tons in 1989 is expected to increase by 1.45 million tons in the next year or so.

North American uncoated freesheet capacity (1988-1993)

COMPANY	1988 TONS (000)	1988 % OF TOTAL	1993 TONS (000)	1993 % OF TOTAL	CHANGE TONS (000)	CHANGE % OF TOTAL
TOTAL UNITED STATES (API)	11,897.0	100.0%	13,675.0	100.0%	1,778.0	100.0%
International Paper/Hammermill	1,812.5	15.2%	1,847.5	13.5%	35.0	2.0%
Champion	1,153.0	9.7%	1,373.0	10.0%	220.0	12.4%
Boise Cascade	864.3	7.3%	1,152.3	8.4%	288.0	16.2%
James River (CZ)	791.8	6.7%	791.8	5.8%		
Georgia-Pacific	760.0	6.4%	1,085.0	7.9%	325.0	18.3%
Nekoosa Papers	719.5	6.0%	719.5	5.3%		
Union Camp	579.9	4.9%	869.9	6.4%	290.0	16.3%
Westvaco	481.6	4.0%	281.6	2.1%	(200.0)	-11.2%
Mead	466.9	3.9%	466.9	3.4%		
P.H. Glatfelter/Ecusta	405.4	3.4%	405.4	3.0%		
Simpson Paper (Plainwell)	415.2	3.5%	415.2	3.0%		
Weyerhaeuser	400.0	3.4%	400.0	2.9%		
Stora/Newton/Mohawk	207.6	1.7%	207.6	1.5%		
Finch Pruyn & Co., Inc.	166.1	1.4%	166.1	1.2%		
Potlatch	161.2	1.4%	161.2	1.2%		
Allied Paper Inc.	155.3	1.3%	155.3	1.1%		
Appleton Papers, Inc.	151.4	1.3%	151.4	1.1%		
Fraser	148.0	1.2%	148.0	1.1%		
Pentair Paper Co.	143.9	1.2%	143.9	1.1%		
Temple Inland Inc.	141.5	1.2%	141.5	1.0%		
Willamette Industries	141.5	1.2%	396.5	2.9%	255.0	14.3%
E.B. Eddy Group	140.2	1.2%	140.2	1.0%		
Wausau	127.8	1.1%	127.8	0.9%		
Warren	108.1	0.9%	108.1	0.8%		
Grays Harbor Paper Co.	108.1	0.9%	108.1	0.8%		
Kimberly-Clark Group	102.2	0.9%	102.2	0.7%		
Sorg	98.3	0.8%	98.3	0.7%		
Howard	74.7	0.6%	74.7	0.5%		
Penntech	73.7	0.6%	73.7	0.5%		
Scott Paper Co.	64.9	0.5%	64.9	0.5%		
Lyons Falls Pulp & Paper	61.9	0.5%	61.9	0.5%		
Lincoln Pulp & Paper	49.1	0.4%	49.1	0.4%		
Badger	47.2	0.4%	47.2	0.3%		
Valentine Pulp & Paper	41.3	0.3%	41.3	0.3%		
Fitchburg Paper Corp.	38.1	0.3%	38.1	0.3%		
Kerwin Paper Co.	34.4	0.3%	34.4	0.3%		
Fletcher Paper Co.	29.5	0.2%	29.5	0.2%		
Fox River Paper Co.	29.5	0.2%	29.5	0.2%		
Shawano Paper Mills	29.5	0.2%	29.5	0.2%		
Ward Paper Co.	23.6	0.2%	23.6	0.2%		
Monadnock Paper Mills	21.6	0.2%	21.6	0.2%		
Byron Weston Co.	20.6	0.2%	20.6	0.2%		
Linweave Paper Co.	19.7	0.2%	19.7	0.1%		
French Paper Co.	17.7	0.1%	17.7	0.1%		
Rising Paper Co.	14.7	0.1%	14.7	0.1%		
Crane & Co.	14.7	0.1%	14.7	0.1%		
Potsdam Paper Mills	11.8	0.1%	11.8	0.1%		
George A. Whiting Paper Co.	7.9	0.1%	7.9	0.1%		
NVF Company	7.4	0.1%	7.4	0.1%		
Minnesota Mining & Manufacturing	4.9	0.0%	4.9	0.0%		
Southworth Co.	4.4	0.0%	4.4	0.0%		
Esleek Manufacturing Co.	4.4	0.0%	4.4	0.0%		
Total U.S. Identified	11,698.5		12,911.5			
TOTAL CANADA (CPPA)	1,153.0	100.0%	1,702.0	100.0%	549	100.0%
Domtar Inc.	454.1	39.4%	614.1	36.1%	160	29.1%
E.B. Eddy	128.8	11.2%	128.8	7.6%		
Fraser Paper Ltd.	110.0	9.5%	110.0	6.5%		
Canadian Pacific Forest Products Ltd.	119.9	10.4%	314.9	18.5%	195	
Island Paper	117.9	10.2%	117.9	6.9%		0.0%
Rolland	128.8	11.2%	128.8	7.6%		
Weyerhaeuser	93.5	8.1%	93.5	5.5%		0.0%
Total Canada Identified	1,153.0		1,508.0			

Note: API - American Paper Institute, CPPA - Canadian Pulp and Paper Association
Source: Jaakko Poyry Consulting

freesheet are business forms and copy paper.

Impact of world events

The demand outlook for all paper grades has been clouded by the Persian Gulf Crisis and the difficulties with the Federal budget. The economic slowdown that we are experiencing will likely extend well into 1991. This is in contrast to last year, when we expected a slowdown in 1990 but a recovery in 1991. In looking at uncoated paper use, we will concentrate on uncoated groundwood and review the likely demand by major end-use category.

Consumption of uncoated groundwood grades for magazines amounted to some 671,000 tons in 1989, a slight increase over 1988. A very modest decline, under 1 percent, is expected for 1990, with a slightly better recovery in 1991. This optimism for 1991 is based on two factors. First, we expect more SC paper to be available because of conversions/upgrades of existing paper machines. Second, publishers who want to improve margins during an economic slowdown are more likely to consider uncoated grades.

Balancing the mix

The mix between coated and uncoated papers used for magazines will probably shift slightly in favor of uncoated paper in the short run because of economic considerations, but for the longer term, coated paper will marginally increase its share from the current 76 percent level.

Directories used just under 660,000 tons of uncoated groundwood papers in 1989. This represents almost a 4 percent increase over 1988. Growth in 1990 and 1991 will be much more modest, averaging less than 2 percent per year. For the most part, directory papers are an unfilled, machine finished grade. The trend in these grades will be in two directions: a move toward lighter basis weights, and a requirement to include some recycled fiber content.

It should be noted that these trends are somewhat at odds with each other. Lighter basis weights require stronger fiber, but recycled fiber is generally weaker than virgin fiber. Producers will need to cope with this dilemma.

Catalogs, like magazines, rely predominantly on coated grades for their paper needs. Image and print quality are the primary driving forces. Currently, three-fourths of all paper used for catalogs is coated. Of the uncoated paper used, some 88 percent is groundwood and 12 percent freesheet. Uncoated demand in 1989 was off almost 3 percent from 1988, and amounted to 431,000 tons. For 1990, demand will remain essentially the same, and will likely experience a very modest uptick in 1991.

Inserts and fliers make up the last of the major end-users for uncoated groundwood papers. Approximately 865,000 tons went for this end-use in 1989. Almost 80 percent of this was supercalendered paper. Growth in this market had been excellent (over 5 percent per year), but slowed considerably in 1989 to

the 1 percent range. Prospects for growth in 1990 and 1991 are not expected to improve to any great degree.

In total, the 1989 demand for uncoated groundwood papers was just under 3.5 million tons. The projection for 1990 is 3.67 million tons, with a further increase of some 200,000 tons in 1991. (It should be pointed out that some of the apparent increase between 1989 and 1990 was due to a revision in the Canadian import statistics. Figures for 1990 are based on the new classification method, which increases uncoated groundwood and decreases newsprint. Corrections were made to 1989 data, but they are still under review.)

The forecast for 1991 reflects an economic slowdown lasting through mid-year, with a gradual recovery thereafter. It does not factor in a shooting war in the Middle East. Such an event would probably halve the expected growth. The forecast also reflects our belief that an economic slowdown helps uncoated groundwood grades at the expense of coated grades.

For uncoated freesheet use in the printing industry, commercial printing applications are, and will continue to be, the dominant driving forces. Consumption during 1989 declined by about 75,000 tons (or 2.6 percent) from the prior year to a level of 1,237,000 tons. Two other significant printing industry applications—direct mail and book publishing—also showed modest declines between 1988 and 1989. Together, these usages constitute almost one million tons.

Looking to the future, we can expect uncoated freesheet usage in the printing industry to decline further. Declines in the 1 to 2 percent range are anticipated over the 1990-1991 period. In 1989, total uncoated freesheet demand within the printing industry was 2,560,000 tons. By the end of 1991, we expect that demand will have fallen by about 60,000 tons.

North American uncoated groundwood capacity (1988-1993)

COMPANY	1988 TONS (000)	1988 % OF TOTAL	1993 TONS (000)	1993 % OF TOTAL	CHANGE TONS (000)	CHANGE % OF TOTAL
TOTAL U.S. (API)	1,696.0	100.0%	1,975.0	100.0%	279.0	100.0
U.S. PRODUCERS						
Appleton	35.0	2.1%	35.0	1.8%		
Boise Cascade	40.0	2.4%	40.0	2.0%		
Bowater	40.0	2.4%	40.0	2.0%		
Champion	240.0	14.2%	240.0	12.2%		
James River	80.0	4.7%	80.0	4.1%		
Daishowa America	75.0	4.4%	75.0	3.8%		
Fraser Paper Ltd.	145.0	8.5%	145.0	7.3%		
Georgia-Pacific	40.0	2.4%	40.0	2.0%		
Great Northern	270.0	15.9%	226.0	11.4%	(44.0)	-19.5%
Hennepin Paper Co.	20.0	1.2%	20.0	1.0%		
Kimberly-Clark	90.0	5.3%	90.0	4.6%		
Imperial Paper Co.	10.0	0.6%	10.0	0.5%		
Lake Superior Paper Ind.	180.0	10.6%	180.0	9.1%		
Lyons Falls Pulp & Paper	20.0	1.2%	20.0	1.0%		
Madison Paper Co.	175.0	10.3%	175.0	8.9%		
Ministique Paper	35.0	2.1%	35.0	1.8%		
Mead Paper Co.	40.0	2.4%	40.0	2.0%		
Pejapscot Paper	55.0	3.2%	55.0	2.8%		
Seaman Paper	10.0	0.6%	10.0	0.5%		
Total U.S. Identified	1,600.0		1,556.0			
TOTAL CANADA (CPPA)	1,648.0	100.0%	2,225.0	100.0%	577.0	
CANADIAN PRODUCERS						
Abitibi-Price	450.0	27.3%	500.0	22.5%	50.0	8.7%
Boise Cascade Canada Ltd.	270.0	16.4%	320.0	14.4%	50.0	8.7%
Bowater Mercy	10.0	0.6%	10.0	0.4%		
Canadian Pacific	420.0	25.5%	420.0	18.9%		
Consolidated-Bathurst Inc.	420.0	25.5%	420.0	18.9%		
Domtar, Inc.	190.0	11.5%	190.0	8.5%		
F.F. Soucy	55.0	3.3%	55.0	2.5%		
K.C. of Canada	20.0	1.2%	20.0	0.9%		
Kruger Pulp and Paper	15.0	0.9%	92.0	4.1%	77.0	13.3%
Macmillan-Bloedel	440.0	26.7%	440.0	19.8%		
Ontario Paper Co.	20.0	1.2%	20.0	0.9%		
St. Mary's Paper Inc.	160.0	9.7%	160.0	7.2%		
St. Raymond Paper Ltd.	60.0	3.6%	27.0	1.2%	(33.0)	-5.7%
Stone Consolidated	0.0	0.0%	154.0	6.9%	154.0	26.7%
Total Canada, Identified	2,530.0		2,674.0			

Note: API - American Paper Institute, CPPA - Canadian Pulp and Paper Association

The paper industry is becoming more and more of a global market in which shifting world demands have important effects on U.S. printing and publishing industries.

SC: Quality improvements

Before we look at the supply side of the equation, it is worthwhile taking a closer look at the demand for supercalendered papers. As previously mentioned, the demand for uncoated groundwood papers has two distinct trends—upward for the supercalendered segment and downward for the machine finished part. Use of SC papers is almost exclusively in three end-use areas: magazines, catalogs and inserts/flyers. Between 1988 and 1989, the SC growth in these categories was 10 percent, 5.2 percent and 5.2 percent, respectively. This growth is being fueled by two technological developments. First is the development of soft-nip calendering technology, which has allowed unfilled MF and newsprint grades to be upgraded to SC-C quality levels at reasonable capital investment levels. Furthermore, it has allowed some producers to include filler in their furnish to produce a SC-B quality.

Also, producers of the highest quality SC papers (SC-A) have been increasing filler levels. These levels, in some cases, are over 25 percent and result in a sheet print quality comparable to coated groundwood papers.

Second, experiments using calcium carbonate as the filler material are underway. This will further improve print quality as well as give a brightness increase. It is possible that we will see such a premium grade being offered in 1991.

Because of these technological advances, it is expected that SC grades will continue to take market share from uncoated MF grades. It is too soon to tell if they will have a major impact on coated groundwood grades. As a result, growth of SC papers in the end-use areas cited before will continue to increase at rates similar to the 1988/89 period.

Available supply

The total U.S. production capacity for uncoated groundwoods in 1989 was approximately 1.85 million short tons. The total North American

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capacity for uncoated groundwood is expected to increase by only some 254,000 short tons through 1993. All of this increase will come from increases in Canada's uncoated groundwood capacities. Canada, at present, supplies almost 41 percent of the total U.S. uncoated groundwood consumption needs.

Offshore imports of these grades will probably increase by another 100,000 tons over the next couple years to supply increasing demands for high quality SC papers.

It should be noted that the projected North American capacity increases are somewhat less than had been expected last year. The uncertain economic outlook has caused some projects to be shelved and others to be delayed. The one new machine—Stone Consolidated at Grand Mere—will produce a SC-B grade using the soft-nip calendering technology.

The supply outlook for uncoated freesheet grades differs considerably from that of the uncoated groundwoods. In 1989, the total U.S. capacity for producing uncoated freesheet was almost 12.2 million tons. This capacity is expected to be increased by an additional 1.45 million tons in the next year or so. It is apparent that most of these tonnage increases will be made by U.S. producers. In the case of the uncoated freesheet grades, imports play a very minor role in the overall U.S. supply picture, and this is expected to continue in the future.

The outlook

It is apparent that paper buyers will be in a very favorable position during the next couple of years. With the economic slow-downs of 1990 and possibly 1991, the general paper demands and paper company operating rates are expected to be down. For the uncoated groundwoods, operating rates are expected to decline from 95 percent in 1989 to 93.5 percent in 1991. This will put some pricing pressures on the paper suppliers and offer paper buyers advantages in their negotiations for paper.

A potential negative from the buyer's outlook is the lack of coated groundwood capacity. As noted in last month's article on coated paper, producers should be able to raise prices and improve the profitability picture for the grade. Uncoated groundwood producers, particularly the Canadians who have also suffered because of foreign exchange rates, may well follow their lead. Currently, SC grades are being discounted up to $50/ton in response to discounts on coated groundwood grades.

Operating rates for uncoated freesheet are expected to show a slight reverse trend. In this case, operating rates are expected to increase from an average of 91.2 percent in 1989 to 92.4 percent in 1991. This should produce a relatively stable pricing environment with price increases generally matching inflation.

Altogether, between capacity increases and generally softening paper demands expected during the next couple years, printers and publishers are apt to experience less economic stress associated with buying uncoated paper than they can expect as a result of the postal rate increases of 1991. In looking for ways to cope with rising printing and postal costs, there will be a continuing need to evaluate paper grade options.

The paper industry is becoming more and more of a global market in which shifting global demands may have increasingly important effects on the supply/demand situations facing various facets of the U.S. printing and publishing communities.

In the short term, U.S. paper buyers have a comfortable outlook. In the long term, the unification of Europe and the opening of the Eastern bloc countries may dramatically change this outlook. This may not be all bad news. After all, a unified Europe—with no import/export restrictions between countries and a united currency situation—may offer greater growth potentials for U.S. printers than those offered by the North American markets. Much depends upon how the industry views this future—as either a threat or an opportunity.□

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The hidden bonus in consumer price resistance

"Publishers have a big dilemma," says Peter Armour, vice president of circulation for Conde Nast. "We've been assuming we could pass along upcoming postal increases to consumers. Now I don't see any way to do that."

He is not alone: "There is definitely consumer resistance to increased prices at the upfront racks in supermarkets," says Bob Spillane, former executive vice president of Diamandis Communications, Inc.

At least one major publisher, who wished not to be named, is considering rolling back recent price increases. And still other publishers have had difficulty getting the prices they think represent the fair value of their products. At *Ms.*, for example, initial price tests for a one-year subscription had been for $40, but rollout is scheduled at $25.

Consumer price resistance could be a silver-lined opportunity for publishers who are motivated by it to seek niche marketing based on core readership

'Sticker shock' phenomenon

The "sticker shock" phenomenon appears to be running across the consumer magazine publishing industry, for all types of magazines. "Our testing has turned up varying degrees of price resistance," says Ed Fones, subscription marketing director of Rodale Press. "We have some planned increases, but we're not going up as aggressively as we have in the past couple of years.

"In markets where our magazines are dominant, [represented by titles such as] *Bicycling*, *Runners World* and *Backpacker*, there appears to be less price resistance. With *Prevention*, which has raised its introductory subscription price $1 every year for the past three years, we're waiting to see test results from the December mailings before making a decision."

Industry data presented in the accompanying table show a steep run-up in average prices consumers have paid during the past four years. According to industry data tabulated by Hotline from ABC Publisher's Statements, since 1986 the average price readers have paid for a subscription has increased from $24.01 to $29.93, a jump of $5.92, or 25 percent.

Cover prices have increased even more dramatically, going up from an average of $1.71 to $2.43, an increase of $0.72, or 42 percent. It is important to note that in the case of subscriptions, basic or higher prices are paid for only about 30 percent of subscriptions sold, while 70 percent are sold at lower than basic. Nevertheless, increases in basic price indicate that what readers have been asked to pay has gone up at least at the same rate.

Consumer resistance is now showing up in single-copy sales purchases. According to Hotline's analysis of Fas-Fax for the period ending June 30, 1990, and the supplement, 198 magazines gained in single-copy

Average basic and cover prices, consumer magazines, 1986-89*

	1986**	1987**	1988**	1989**
Average basic	$24.01	$26.95	$27.49	$29.93
Average cover	$ 1.71	$ 1.90	$ 1.95	$ 2.43
% change in basic		12.24	2.00	8.88
% change in cover		11.11	2.63	24.62

*Adjusted for frequency
**ABC period ending December 31 of each year
Source: Hotline database compiled from ABC Publisher's Statements

Readers are resisting. *Over the past four years, the average subscription price increased from $24.01 to $29.93, a 25 percent jump. Cover prices have increased even more dramatically—from an average of $1.71 to $2.43, a 42 percent jump.*

David Foster is president of David Foster & Associates, Inc., publishing consultants, and editor and publisher of Competitive Publishing Hotline.

circulation, but 267 went down.

What is more revealing, 121 magazines failed to file their Publisher's Statements by press time, or were under suspension. As has been widely noted in Hotline and other media, some of the largest single-copy circulation magazines are continuing the erosion of this channel of sales. *TV Guide* was off 4.7 percent, *Reader's Digest* fell 2.2 percent, *Family Circle* went down 12.2 percent, *Woman's Day* deteriorated 5.3 percent, and the list goes on.

Whole categories continue to slide. *Cosmo*, *Mademoiselle* and *Glamour* all fell, as did women's service magazines and men's style. Many special interest categories, such as cars, mechanics and outdoor, experienced declines in the majority of magazines.

Declining subscriptions

Subscriptions have not been immune to increased price resistance either. "Our price tests are showing falloffs of 50 percent or more," says one circulation director, whose comments are representative of the sentiments expressed by several. "The old rule of thumb that you would lose subscriptions in proportion to the rate at which prices increased doesn't seem to fit now."

Recent test experience reported by those interviewed appears to be supported by trends revealed in industry data. Data suggest that a greater proportion of subscriptions is being sold at lower than basic price. Generally, publishers rely on discounts to attract new subscribers in direct-to-publisher sources. When coupled with cuts in the absolute number of subscriptions sold, the trend suggests either that price is being used to lure readers with marginal interest, or publishers aren't pushing renewals to full basic so quickly.

In the face of postal hikes scheduled for February 1991 (expected to exceed 20 percent for most publishers), consumer price resistance, whether due to pockets of recession or lack of buying confidence, couldn't have set in at a tougher time.

In past years, it was possible to shift the burden of increased pricing back and forth between advertising and circulation revenue streams. In the current advertising environment, no one is hinting at this possibility. Consumer resistance to increased circulation prices may mean deep cuts in magazine profitability during 1991.

Depending on the magazine, strategies that are used to overcome price barriers to purchase include the following:

1. Cutting rate base.
2. Relying more heavily on agency sources for subscriptions sold.
3. Taking the "sting" out of price by resorting to varying term; selling more at discount; using editorial or other premiums; or increased use of sweeps.
4. Rolling back price.
5. Stepping up the effort to increase the value of each subscriber by selling other items, such as ancillary products, clubs and the like.

Weekly magazines probably have greater flexibility in utilizing such strategies than publications of lesser frequency. One circulation director of a newsweekly, who wished not to be quoted, told Hotline that the mix of premiums, discounts and variations in term was being juggled to overcome price resistance, and that a clear pattern indicating a barrier had not yet emerged.

"The old rule of thumb that you would lose subscriptions in proportion to the rate at which prices increased doesn't seem to fit now."

A weak crutch

During the period of 1986-1989, publishers did not come to rely more heavily on editorial or premiums to take the sting out of increased prices. They did, however, come to rely more heavily on agency-sold subscriptions. By diverting the reader's attention away from price through the use of sweepstakes and combination package buys with other magazines (characteristics of PDS and Cash Field sources), magazine publishers put less money at risk in direct mail, but sacrificed future circulation profits from renewals.

It should be noted that those magazines pushing editorial or premiums stayed pretty constant, suggesting that the presence of such devices may be primarily a matter of marketing philosophy, or appropriateness to a particular magazine.

The hidden dimension in subscription selling, however, is sweepstakes. Since sweepstakes are included in the Publisher's Statement under paragraph 5a, mail and/or direct request, there is no information that tells how much the industry has come to rely on sweepstakes in particular to generate subscriptions. But Hotline's estimate is that sweepstakes may be a dominant factor for many magazines.

In addition to the increased reliance on direct mail agency stamp sheets, many companies have come to use sweepstakes for most, and in some cases all, of their new business acquisitions. Family Media, Time Warner, Reader's Digest Association and The New York Times Company are representative of the largest publishers that now rely extensively on sweepstakes.

In many cases, even renewals are now based on this kind of sell. While publisher-sold sweeps are an option for large companies, this option is out of reach for many of the smaller ones—which at best are confined to scaled-down versions.

How long?

How long the apparent consumer price resistance will last is a question. But trying to change price in an economic climate characterized by general consumer uncertainty and increased lack of confidence probably just reminds consumers of their fears and exacerbates a situation that is already bad.

Nonetheless, such price resistance on the part of consumers could be a silver-lined opportunity for publishers who use it as an impetus to pursue niche marketing based on core readership. In such circumstances, circulation price could become a tactic that brings circulation levels in line with advertiser targeting requirements, and reduces publishers' costs. □